

FRANKLIN FINANCIAL SERVICES CORP /PA/

Form 10-Q

November 10, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-12126

FRANKLIN FINANCIAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation or organization)

25-1440803

(I.R.S. Employer Identification No.)

20 South Main Street, Chambersburg PA17201-0819

(Address of principal executive offices) (Zip Code)

(717) 264-6116

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes No

There were 4,202,690 outstanding shares of the Registrant’s common stock as of October 31, 2014.

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Part I FINANCIAL INFORMATION

Item 1 Financial Statements

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)	(unaudited) September 30 2014	December 31 2013
Assets		
Cash and due from banks	\$ 15,302	\$ 13,542
Interest-bearing deposits in other banks	40,905	27,203
Total cash and cash equivalents	56,207	40,745
Investment securities available for sale, at fair value	176,111	159,674
Restricted stock	1,938	1,906
Loans held for sale	1,333	349
Loans	730,645	723,413
Allowance for loan losses	(8,935)	(9,702)
Net Loans	721,710	713,711
Premises and equipment, net	15,386	16,145
Bank owned life insurance	21,956	21,530
Goodwill	9,016	9,016
Other intangible assets	387	698
Other real estate owned	3,737	4,708
Deferred tax asset, net	4,617	5,445
Other assets	10,400	10,660
Total assets	\$ 1,022,798	\$ 984,587
Liabilities		
Deposits		
Noninterest-bearing checking	\$ 138,346	\$ 121,565
Money management, savings and interest checking	657,731	610,245
Time	102,788	113,914
Total Deposits	898,865	845,724
Securities sold under agreements to repurchase	1,556	23,834
Long-term debt	12,000	12,403
Other liabilities	8,290	7,238
Total liabilities	920,711	889,199
Shareholders' equity		
Common stock, \$1 par value per share, 15,000,000 shares authorized with 4,589,842 shares issued and 4,201,413 shares outstanding at September 30, 2014 and 4,560,700 shares issued and 4,168,673 shares outstanding at December 31, 2013	4,590	4,561

Capital stock without par value, 5,000,000 shares authorized with no shares issued and outstanding	-	-
Additional paid-in capital	37,141	36,636
Retained earnings	70,320	65,897
Accumulated other comprehensive loss	(3,018)	(4,696)
Treasury stock, 388,429 shares at September 30, 2014 and 392,027 shares at December 31, 2013, at cost	(6,946)	(7,010)
Total shareholders' equity	102,087	95,388
Total liabilities and shareholders' equity	\$ 1,022,798	\$ 984,587

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data) (unaudited)	For the Three Months Ended		For the Nine Months Ended	
	September 30 2014	2013	September 30 2014	2013
Interest income				
Loans, including fees	\$ 7,706	\$ 8,019	\$ 22,865	\$ 24,351
Interest and dividends on investments:				
Taxable interest	665	476	1,967	1,194
Tax exempt interest	386	378	1,120	1,135
Dividend income	24	19	80	59
Deposits and obligations of other banks	49	49	133	180
Total interest income	8,830	8,941	26,165	26,919
Interest expense				
Deposits	679	811	2,076	3,076
Securities sold under agreements to repurchase	2	10	11	40
Long-term debt	118	124	360	367
Total interest expense	799	945	2,447	3,483
Net interest income	8,031	7,996	23,718	23,436
Provision for loan losses	-	350	464	1,955
Net interest income after provision for loan losses	8,031	7,646	23,254	21,481
Noninterest income				
Investment and trust services fees	1,120	1,140	3,311	3,288
Loan service charges	265	232	682	674
Mortgage banking activities	15	18	47	36
Deposit service charges and fees	563	472	1,553	1,359
Other service charges and fees	317	232	901	687
Debit card income	339	315	982	917
Increase in cash surrender value of life insurance	139	150	426	455
Other real estate owned (losses) gains, net	-	(119)	(184)	(260)
Other	30	89	92	179
OTTI losses recognized in earnings	(20)	(25)	(20)	(75)
Securities gains, net	-	-	221	30
Total noninterest income	2,768	2,504	8,011	7,290
Noninterest expense				
Salaries and employee benefits	4,191	3,977	12,548	12,208
Net occupancy expense	555	566	1,817	1,702
Furniture and equipment expense	241	239	732	730
Advertising	312	386	898	1,039
Legal and professional fees	361	233	979	871
Data processing	471	472	1,355	1,317
Pennsylvania bank shares tax	173	204	520	612
Intangible amortization	104	106	311	319
FDIC insurance	236	245	690	760

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ATM/debit card processing	188	174	545	520
Other	916	780	2,656	2,513
Total noninterest expense	7,748	7,382	23,051	22,591
Income before federal income tax expense	3,051	2,768	8,214	6,180
Federal income tax expense	641	583	1,659	1,089
Net income	\$ 2,410	\$ 2,185	\$ 6,555	\$ 5,091

Per share

Basic earnings per share	\$ 0.57	\$ 0.53	\$ 1.57	\$ 1.23
Diluted earnings per share	\$ 0.57	\$ 0.53	\$ 1.56	\$ 1.23
Cash dividends declared	\$ 0.17	\$ 0.17	\$ 0.51	\$ 0.51

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in thousands) (unaudited)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2014	2013	2014	2013
Net Income	\$ 2,410	\$ 2,185	\$ 6,555	\$ 5,091
Securities:				
Unrealized gains (losses) arising during the period	275	(1,772)	2,469	(3,362)
Reclassification adjustment for losses (gains) included in net income	20	25	(201)	45
Net unrealized gains (losses)	295	(1,747)	2,268	(3,317)
Tax effect	(100)	594	(771)	1,128
Net of tax amount	195	(1,153)	1,497	(2,189)
Derivatives:				
Unrealized gains (losses) arising during the period	2	(20)	(10)	24
Reclassification adjustment for losses included in net income (1)	96	97	285	429
Net unrealized gains	98	77	275	453
Tax effect	(34)	(26)	(94)	(154)
Net of tax amount	64	51	181	299
Total other comprehensive income (loss)	259	(1,102)	1,678	(1,890)
Total Comprehensive Income	\$ 2,669	\$ 1,083	\$ 8,233	\$ 3,201
			Tax expense	Tax expense
Reclassification adjustment / Statement line item			(benefit)	(benefit)
(1) Derivatives / interest expense on deposits	\$ (33)	\$ (33)	\$ (97)	\$ (146)

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the Nine months September 30, 2014 and 2013:

	Common	Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury	Total
(Dollars in thousands, except per share data) (unaudited)	Stock	Capital	Earnings	Loss	Stock	Total
Balance at December 31, 2012	\$ 4,503	\$ 35,788	\$ 62,475	\$ (4,050)	\$ (7,082)	\$ 91,634
Net income	-	-	5,091	-	-	5,091
Other comprehensive loss	-	-	-	(1,890)	-	(1,890)
Cash dividends declared, \$.51 per share	-	-	(2,103)	-	-	(2,103)
Treasury shares issued under stock option plans, 4,007 shares	-	(20)	-	-	72	52
Common stock issued under dividend reinvestment plan, 36,616 shares	37	545	-	-	-	582
Balance at September 30, 2013	\$ 4,540	\$ 36,313	\$ 65,463	\$ (5,940)	\$ (7,010)	\$ 93,366
Balance at December 31, 2013	\$ 4,561	\$ 36,636	\$ 65,897	\$ (4,696)	\$ (7,010)	\$ 95,388
Net income	-	-	6,555	-	-	6,555
Other comprehensive income	-	-	-	1,678	-	1,678
Cash dividends declared, \$.51 per share	-	-	(2,132)	-	-	(2,132)
Treasury shares issued under stock option plans, 3,598 shares	-	(9)	-	-	64	55
Common stock issued under dividend reinvestment plan, 29,142 shares	29	514	-	-	-	543
Balance at September 30, 2014	\$ 4,590	\$ 37,141	\$ 70,320	\$ (3,018)	\$ (6,946)	\$ 102,087

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
	2014	2013
(Dollars in thousands) (unaudited)		
Cash flows from operating activities		
Net income	\$ 6,555	